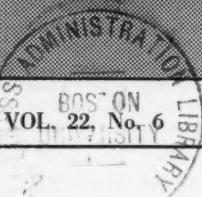


Management News

Business Conditions and Forecasts



JUNE 23, 1949

Copr. 1949, American Management Association

President's Scratchpad

LAWRENCE A. APPLEY



Management Slum Clearance

IT is not unusual that the more favored residents of a community are sometimes shocked by the report of some research group or government bureau which has just completed a survey of the less desirable residential areas of the same community. It is a double shock to discover that one's own home town contains what outsiders have labeled "slums." We sometimes move around complacently in our own environment out of contact with, and quite unconscious of the existence of, highly undesirable practices and conditions right within our own community family.

This condition is not unlike what frequently exists in the field of management. Progressive, skilled and able management frequently exists in the environment of its own philosophies and practices and mixes only with similar managements. At the same time, it is poorly informed and out of daily contact with managements of quite a different character but which, at the same time, are included in the same family. People are most frequently inclined to generalize from the specific, and management as a whole is to them the management they know.

Numerous conditions resulting from certain inadequate management philosophies and practices have come to our attention over the past several months. These might, by comparison with the better areas of management, be identified as "management slums." Good management has a responsibility for these conditions because they are a reflection upon the management community as a whole. They are also representative of the conditions which cause "outsiders" to make extensive studies and surveys and to come up with projects of one kind or another for correcting conditions which the "community" itself should correct.

There is a company, for example, which has between four and five thousand employees on the payroll. It recently instituted a new personnel policy which required a knowledge of the length of service of each employee. It was discovered that not an employee record of any kind existed other than the fact that the person was on the payroll and what he or she was to receive. It was necessary, therefore, to ask each employee for an original employment date. Answers such as this were received: "Let's see, Johnnie just entered first grade and he is six. He was born one year after I was married

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Trends in Business

General Outlook

The consensus among business observers seems to be that the economic indicators will slide still lower before any turn can be expected. Forecasters are predicting that unemployment—which totaled nearly 3.3 million in May—will reach 4 or 5 million by mid-summer.

Employment in May was actually higher than in May of last year, but the labor force is larger, and the number of non-farm jobs has shrunk. True, employment on farms has risen enough to offset this decline, but the agricultural jobs are mostly seasonal ones which will disappear later on.

There are, however, still a good many favorable factors. Construction is strong, and automobile output is still at peak levels. Personal income in April, while below the March level, was 2½ per cent above the level of April, 1948. In addition, the Federal Reserve Board has released a survey which indicates there were at least as many spending units with liquid reserves at the beginning of the year as there were at the start of 1948. Consumer spending, though below last winter's peaks, is above the level for last year at this time.

Production

The Federal Reserve Board's index of industrial production dropped to 174 in May, from 179 in April, and 184 in March. This is a decline of about 10 per cent from the 195 of last fall.

Steel production has now dropped below 90 per cent of capacity. For the latest week, the figure was 86.7 per cent, as compared with 96 per cent in the corresponding week of 1948. Automobile production shows no signs of a drop, how-

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President's Scratchpad

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and I came with the company three years before I was married. I must have joined the company around August of 1939." It sounds incredible in this day and age.

A major and important company was tied up with a strike for several weeks. With the help of a government mediator and several all-night sessions between management and labor representatives, an agreement was reached on a Saturday morning and the workers were to return on Monday morning. As the union members were leaving the president's office, they recalled that the company had a cafeteria in the building and decided to have lunch there. As the union representatives picked up their trays, a messenger from the president's office asked them to come up. When they arrived, the president was standing with his watch in his hand. The conversation went something like this: "John [the head of the union group], didn't we finish our business this morning?" "Yes." "What time was that?" "11:45." "We were through with our business, weren't we, and it ended satisfactorily?" "That's right." "It is now 12:14. What the — are you still doing on our property?" The plant didn't open on Monday. It seems incredible, doesn't it?

The chief executive of another company, when questioned about the high turnover among his chief executives, answered: "Executive turnover is a good thing, isn't it? You can get all that's good out of a man in a year or two. Why keep him longer?" This sounds impossible and incredible, but is a fact.

The manager of a field unit of a large company had been with that organization for 23 years. He had an excellent record and through his own leadership capacities had contributed a great deal to profits. But for about two years, he had been "slowing up," and finally he went to the hospital in a serious condition. While in the hospital, he was notified that his services would no longer be needed by the company and that a "reasonable" termination allowance would be worked out with him when he was in proper physical condition to discuss the matter.

The manager of a plant some distance from the home office learned that he was to be replaced on his job when the wife of his successor arrived in town to house-hunt. Two days later he died of a heart attack. There was nothing in his record to indicate failure on the job, to which he had been promoted about a year previously.

The board of directors of a small company met on a Monday morning to discuss a tightening economic situation. It was decided that economies would have to be effected, one of which was in administrative overhead. Nine second- and third-line key people were selected for termination. At 4 o'clock that afternoon, they were advised that their jobs had been eliminated and that they should clean up their desks and be out by 5 o'clock.

Many incidents of this kind are a result of overzealousness on the part of a subordinate in trying to carry out the wishes of the boss and the manner of

handling is unknown to the boss. This comes from lack of discussion and understanding.

Pointing out these things is like the preacher preaching against sin to a faithful flock on Sunday morning. His reason for doing so, I assume, is to register some sense of responsibility for those who are complacent in their Christianity. Unfortunately, the good have to suffer for the sins of the few.

Fortunately, such practices as have been mentioned here are in the minority, but to those human beings who are on the receiving end they are all-important. Housing slums are where vermin and disease breed. The conditions that exist in management slums are those which are favorable to the breeding of Communism and other revolutionary doctrines which are just as undesirable.

We are all responsible for the furtherance of good management practices. Our progress has been nothing short of phenomenal. It is still, however, not enough, and more and more attention must be given to the enlistment of more converts.

Trends in Business

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ever. The total for the first six months of the year may top 3 million cars and trucks.

Construction

Value of new construction put in place last month was \$1,568,000,000 or about the same as in May of 1948, when the figure was \$1,572,000,000. Residential building was down 15 per cent—from \$625,000,000 to \$530,000,000, and industrial construction off even more, but a 31 per cent rise in public construction offset the drops.

Farm Income

Farm income during the first quarter of the year was off only 3.5 per cent, despite lower prices and a decrease in government benefit payments, because of an increase in quantities marketed. "The prospect still remains, however," says the Alexander Hamilton Institute, "that farm income will be at least 10 per cent below the record high 1948 level as the result of a continuation of the present downward trend in the prices of agricultural products."

Corporate Profits

The President's Council of Economic Advisers estimates that corporate earnings were running at an annual rate of \$17.2 billion after taxes in the first quarter of the year, as compared with \$20.2 billion in 1948, and \$12.8 billion in 1946.

Sources:

ALEXANDER HAMILTON INSTITUTE
BROOKMIRE, INC.
BUSINESS WEEK
CLEVELAND TRUST COMPANY
DUN'S REVIEW
FEDERAL RESERVE BANK OF
NEW YORK
NATIONAL CITY BANK

Research

Company Research in Human Relations

Human relations research by individual companies is confined to a minority, it appears from inquiry among 158 member firms, approached because of the outstanding reputations of their industrial relations departments. There were 66 replies. Of these a dozen companies are doing work of a type which can properly be described as research, even though they are spending for it only a penny or two out of each personnel function dollar. Fewer than ten other companies are engaged in one or two projects falling into the twilight zone between research and the mere gathering of facts. Two-thirds of the companies replying reported that they are doing no research at all, and a few wrote briefly that they were too busily engaged in collective bargaining to reply.

What is research? • Academicians are fond of defining research as "pushing out the frontiers of knowledge." Basically that means the creation of a "theory" of which three major types may be tentatively distinguished: (1) a framework of analysis which makes it possible to comprehend a vast mass of facts and observations—e.g., Elton Mayo's theory of the "informal working group"; (2) a theory that provides the tools for analyzing problems—for example, E. W. Bakke's "Theory of Adaptive Human Behavior," designed to facilitate analysis of why men act the way they do; (3) a theory which may be used to forecast the future—e.g., Bakke intends to develop his theory to the point where it will help in forecasting how employees will react to a particular action by management, such as the installation of an incentive plan.

Some companies are giving active support to human relations research in universities by making monetary contributions, and increasingly firms are allowing outside investigators to use their plants as laboratories, provided this does not interfere unduly with regular flow of work (the famous "Hawthorne" studies of the Western Electric Company, the case studies on the "causes of industrial peace" by the National Planning Association). However, management generally appears to feel that basic research of the academic type is too lengthy and too costly. The criterion of human relations research in the individual company is usually that it must have some immediate practical value.

Three approaches • Following the three major types of academic research, we may distinguish three equivalent types of human relations research of an applied nature in an individual company:

1. Collection of significant current practices in a number of firms, with an analysis of the data and adaptation to company policy. For example, an automobile company recently made an analysis of group incentives for foremen, collecting data in a large number of firms, analyzing the major factors

making for success or failure, and then applying the findings to its own operations. Here also belong analytical surveys of wage data and fringe benefits.

2. Evaluation of academic theories analyzing human behavior: In this realm belong the testing of the findings of industrial medicine and analyses of why workers behave the way they do (attitude surveys, productivity studies).
3. Prediction of aspects of human behavior. Programs of this type revolve mostly around the "testing of tests."

Research as defined above is, therefore, distinguished from the mere gathering of facts, such as collection of data on employee turnover and absenteeism rates without any attempt to analyze causes. A mere collection of facts can no more be called research than a collection of bricks can be called a house. Research means the unbiased selection of pertinent facts and the discovery of a pertinent pattern.

Setting up the research function • The research staff usually consists of men with some service and experience in the company, often in personnel, production, engineering, or economics, with some knowledge of industrial relations and statistical techniques. They are usually preferred to outsiders recruited from the universities, because of their knowledge of the company and their practical experience. More than in the past, there appears to be a tendency to concentrate the research function in one department rather than to decentralize it.

Analytical surveys¹ • A number of companies have made surveys of particular personnel problems which confront them. In these surveys, the existing literature is usually studied; a number of companies are visited and the particular practice is studied; experts are interviewed. Resulting material is analyzed, conclusions drawn, and applications to the particular company made. A number of excellent surveys of this type have been concluded on such personnel practices as the following: foremen's functions, foreman compensation, individual and group incentives for foremen, performance review for foremen, management development and training programs for foremen,² executive selection, training and "inventory," induction and pre-employment training for employees, the organization of the industrial relations function, the communication process, suggestion plans, management teamwork and conference programs, benefit plans, (pensions, health), job pricing practices, evaluation of the performance of the personnel department. The most original contributions among all these have probably been some of the compensation and benefit plan studies.

Evaluation and application of academic theories and studies • The most important research of this type is the testing of the findings³ of

¹ Many cooperating companies asked AMA not to reveal their names; where names are mentioned, lack of space makes it impossible to mention all concerned. In several cases, AMA has been asked not to publish or loan out research studies or summaries sent by the reporting companies.

² An excellent synthesis of some of the best thinking and practices in foreman training is contained in Reginald H. Biggs, *On Being a Supervisor*, The H. C. Capwell Company, Oakland, Calif., 1945.

industrial medicine through controlled experiments—on such subjects as industrial diseases, vision, skills, color blindness,³ and fatigue, the reduction of cases and costs of dermatitis,⁴ sterilization of personal protective equipment,⁵ determination of free silica in the foundry department. Particular attention is being paid to accident prevention. Attempts are being made to discover the accident-prone employee through analysis of accident records, application of quality control methods, a study of the relation of temperament to accidents, the relationship between vision and accidents, and to test the efficacy of various types of equipment and safety guards.

Attitude surveys are being more widely used since the last war. These surveys are conducted to some extent by outside opinion poll experts and university survey centers (e.g., Rensis Likert's Survey Research Center at the University of Michigan), but increasingly companies train their own personnel to make and interpret them. One company has studied for the last four years the importance of major job factors to all work applicants. Results have been analyzed in terms of the applicant's characteristics and job goals and the effect of the business cycle. Results are applied in selecting or rejecting specific applicants, and as an aid in the development of company policies and in negotiating union contracts. Another company is making a multiple correlation study of such factors as temperament, interest, mental capacity, aptitude, length of service, attitudes and job performance.

A number of interesting special attitude studies are being undertaken relating to the sales force, the newly hired employee, turnover, absenteeism, the characteristics of employees who present grievances as compared to those who do not, the relative work efficiency of democratic versus autocratic work groups, the outstanding physical and psychological characteristics of women with high production records.

It is clear that here is a rich source for the study of the behavior of people in industry. If this wealth of material were collected, made available for systematization, what a contribution to our knowledge of people in industry that would be!

Prediction • Most important in this area is the "testing" of tests for the reliability of their forecasts. One large company made a detailed survey of tests used in firms with considerable experience and an analysis of the results by checks on subsequent performance, prior to setting up its own testing department. Testing batteries are being developed in a number of firms for factory employees, office staff, and supervisors. These batteries are being validated by techniques customarily used in psychological research.⁶ One public utility reports considerable research on employee merit rating scales and employee progress reports, as a result

of which a new type of scale has been developed, which avoids many of the common rating errors. A number of companies have been developing tests for selection of factory employees, clerical workers, production and staff jobs, engineering college juniors applying for summer jobs. A few companies have had long enough experience with tests to develop follow-up studies.

A beginning is being made in forecasting future labor trends and personnel needs. For example, one industrial relations department annually prepares a "Labor Outlook" dealing with wages, employment, new personnel trends, major union demands and problems, in terms of the country as a whole, the industry, and the particular company.

Conclusions • Practically every reply to the AMA survey began or ended with an expression of gratitude that a start was being made in presenting what management is doing to raise the knowledge of human behavior in industry. It was felt that the existing research is not being utilized and adapted as widely as possible. Companies pointed out that fine research facilities are not being used, and that the great potential contribution of industry to the improvement of living standards and human happiness through human relations is not being realized. There should be more cooperation with other research agencies and opening up of the human relations "laboratories" of industry. There should be more interest and support by top management. (While the AMA inquiry was addressed to the technical experts, one letter strayed to a company president, who personally investigated the work of his personnel department and found there was no research going on. He and the staff members felt it to be so important that they are now planning a program of human relations research.)

What can be done to improve this admittedly unsatisfactory situation? Some such steps as the following might be considered:

1. *Designation of one personnel department member to keep in touch with human relations research in industry, universities, government agencies, and unions.* This man should regularly report his findings to those of his associates concerned with them. To be effective, this service requires careful study of the publications and attendance at some of the important professional meetings.

2. *Support of research activities considered helpful.* This may involve making monetary contributions or providing information or both. Such aid explains in part the helpful contributions made by universities, general associations of employers (AMA, NICB), employers' groups (such as the San Francisco Employers Council, the American Paper and Pulp Association, the American Iron and Steel Institute).

3. *Consideration of research work in the company.* Wage rates are becoming more uniform, but an advantage in labor costs can be gained by increasing productivity. It is here that human relations research, made practical in terms of the particular company, can make a contribution toward lower unit costs and prices, and, at the same time, toward higher wages.

—ERNEST DALE

³ Cf. C. E. Jurgensen, "Industrial Use of the Ishihara Tests for Color Blindness," *Journal of Applied Psychology*, February, 1947, pp. 1-8.

⁴ W. F. Scholtz, "Educational Programs Controls Dermatitis," *American Machinist*, November 20, 1947, pp. 106-108.

⁵ *Idem*, "Sterilizing Protective Equipment," *Occupational Hazards*, May, 1949, pp. 16-17.

⁶ *Viz*: The Conference Board Management Record, October, 1947, pp. 289-295.

Listening Post



JAMES O. RICE

Labor and politics • The American labor movement today is on the threshold of considering a new kind of economy, according to Edward T. Cheyfitz, Assistant to the President, Motion Picture Association of America, and former CIO official. "I don't care whether you call it the welfare state or national planning or industry council planning," he said at the General Management Conference, "labor is moving in that direction."

This, Mr. Cheyfitz pointed out, will mark a distinct change in the attitude of labor in this country, which, in contrast to labor in other countries, has never concerned itself with political and economic ideologies as such. He illustrated the difference this way:

"You know, if you stood up at a union meeting in England (and this is true also of every other country, even of parts of Canada), and called the boss names, the men wouldn't like it. It wouldn't be considered cricket. But if you stood up and said you were for capitalism, you'd be a company stooge. If you supported socialism, you'd be a good labor leader.

"Just the reverse has been true in this country. If you get up and praise the boss, you're a company stooge. But if you say you're for socialism, they think you're a crackpot, and you won't be made a steward."

This time, Mr. Cheyfitz believes, the labor movement is in politics to stay in this country. In the past, he said, unions went into politics only to secure the right to organize and to make effective use of union economic power, and their political efforts subsided as soon as the objectives were attained. Now, he said, labor's political objective is basically the achievement of the kind of society that will provide security for the people—and this is true of the more conservative AFL as well as of the CIO.

Security • Both Mr. Cheyfitz and Cyrus S. Ching, Director, Federal Mediation and Conciliation Service, warned the conferees that the current drive for security, through the labor unions and in the halls of Congress, represents a long-term trend, and that management cannot cope with it merely by blind opposition.

"Fifty years ago," Mr. Ching said, "We recruited industrial employees from rural communities or from foreign countries, and members of that first generation—regardless of where they came from—always had the feeling that they had some place they could go back to, that they had roots somewhere. They had something they could lean on, at least mentally if not materially. But the second and third generations have no roots anywhere, except in the industrial community and in the industrial system, and they are subject to all the hazards and vicissitudes that go with our industrial economy. We must think in terms of changing condi-

tions, and what we must do to meet changing conditions. If we have in mind one objective—namely, the preservation of our individual freedom—and then try to deal with the other problems within that framework, we can get somewhere. But we won't get anywhere by saying: 'The American people have changed, all except me. I'm just the same good old American I always was, but everybody else seems to have changed.'

Decentralization • A maximum of decentralization without undue sacrifice of coordination appears to have been achieved by the General Foods Corporation, whose organization structure was described by Edwin T. Gibson, Executive Vice President of the company, at the General Management Conference.

There are 16 divisions, each handling one product or several related products, and each under the direction of a general manager who has wide powers of decision-making. These divisions are coordinated into three groups, each under the direction of an operating vice president, who reports to the president. In addition, there is a group of staff or service officers, who have no line authority but who act in advisory capacity to the operating executives. Members of this group are under the direction of the executive vice president, with the exception of the marketing vice president, who reports directly to the president.

Thus, there are only five executives directly responsible to the president: the three operating vice-presidents, the executive vice president, and the marketing vice president.

An unusual feature of the organizational set-up is that the directors of personnel and public relations both report directly to the chairman of the board.

Retirement pay and unemployment compensation • Under some state laws—in New York State, for example—there is nothing to prevent an employee who has retired on a company pension from collecting unemployment insurance, provided he does not turn down a suitable job when it is offered him.

The employer's objection is that claims of this sort unfairly affect his merit rating under the unemployment compensation laws, and many companies feel that there is nothing that can be done about it.

In at least one case, however, Winston S. Fliess, Group and Pensions Department, Johnson & Higgins, reported at the AMA Insurance Conference, a plan approved by the Treasury Department includes the following clause: "No participant shall be entitled to receive any retirement income for any period in which he receives any unemployment compensation payments from any government or governmental agency, if such payments affect the company with respect to merit rating or in any other form."

"In other words," Mr. Fliess said, "it can be done, but I do not know that everybody wants to do it. Ninety per cent of employers feel that if they have a private plan, benefits should be paid regardless."

Activities of the AMA

Association Vice Presidents in Charge of Divisional Activities



G. S. MCKEE



F. B. HEITKAMP



J. H. MACDONALD



J. D. MALCOLMSON



J. S. BUGAS



R. B. GALLAGHER

New Division Heads Chosen for 1949-50

Five new division heads were elected by the AMA Board of Directors at a meeting June 8 at the Waldorf-Astoria, New York City, held in conjunction with the General Management Conference. The new vice presidents in charge of divisions are: *Personnel*, John S. Bugas, Vice President, Industrial Relations, Ford Motor Company; *Production*, Grosvenor S. McKee, Vice President and Works Manager, Talon, Inc.; *Marketing*, Frederick B. Heitkamp, Vice President, ATF, Inc.; *Finance and Accounts*, John H. MacDonald, Administrative Vice President, National Broadcasting Company; *Insurance*, Russell B. Gallagher, Manager, Insurance Department, Phileo Corporation. J. D. Malcolmson, Technical Advisor, Robert Gair Company, was reelected Vice President for the Packaging Division.

Vice Presidents at Large are Keith S. McHugh, Vice President, American Telephone and Telegraph Company, and Erwin H. Schell, Department of Business and Engineering Administration, Massachusetts Institute of Technology, both of whom were reelected, and Harold V. Coes, Retired Vice President, Ford, Bacon & Davis. Don G. Mitchell, President, Sylvania Electric Products, was elected chairman of the Executive Committee.

Association officers, all of whom were reelected, are John M. Hancock, Partner, Lehman Brothers, Chairman of the Board; Lawrence A. Appley, President; Alvin E. Dodd, Honorary President; James O. Rice, Secretary; and James L. Madden, Second Vice President, Metropolitan Life Insurance Company, Treasurer. Mr. Madden will serve also as chairman of the Finance Committee.

Also announced by the Board were the names of the Executive and Finance Committee members for 1949-50. On the Executive Committee, in addition to Mr. Mitchell, are: L. R. Boulware, Vice President, General Electric Company; Mr. Coes; A. L. Nickerson, Director, Socony-Vacuum Oil Company; Mr. Madden; Mr. McHugh; Professor Schell; Murray Shields, Vice President, Bank of the Manhattan Company; A. A. Stambaugh, Vice President, The Standard Oil Company of Ohio; and

George H. Williamson, Chairman of the Board, The Williamson Candy Company.

Serving with Mr. Madden on the Finance Committee are Mr. Nickerson, and Mr. Shields.

Ten new directors were elected at the annual meeting of the AMA membership, which preceded the Board of Directors meeting. The ten, who will serve for a three-year term, are: Cecil Dawson, President, Dixie Cup Company; George S. Dively, President and General Manager, Harris-Seybold Company; Raymond H. Fogler, President, W. T. Grant Company; Roger L. Putnam, President, Package Machinery Company; Mr. Shields;

Frank Stanton, President, Columbia Broadcasting System; John A. Stephens, Vice President, U. S. Steel Corporation of Delaware; John A. Stevenson, President, The Penn Mutual Life Insurance Company; William S. Street, President, Frederick & Nelson; and James D. Wise, President, Bigelow-Sanford Carpet Company.

Fowler McCormick Awarded Gantt Memorial Gold Medal

The Henry Laurence Gantt Memorial Gold Medal Award, given annually by the American Society of Mechanical Engineers and the AMA "for distinguished achievement in industrial management as a service to the community" was presented to Fowler McCormick, Chairman of the Board, International Harvester Company, on June 8 at a dinner session of the AMA General Management Conference.

Life memberships in the AMA were awarded to Alvin E. Dodd, Honorary President of the Association, Harold V. Coes, Retired Vice President, Ford, Bacon & Davis, Channing R. Dooley, Director, and Walter Dietz, Assistant Director, Training Within Industry Foundation. The presentation was made by Lawrence A. Appley, AMA President, at the Gantt Medal Award dinner.

The presentation was made by Thomas Roy Jones, President, ATF, Inc., Chairman of the Gantt Medal Board.

